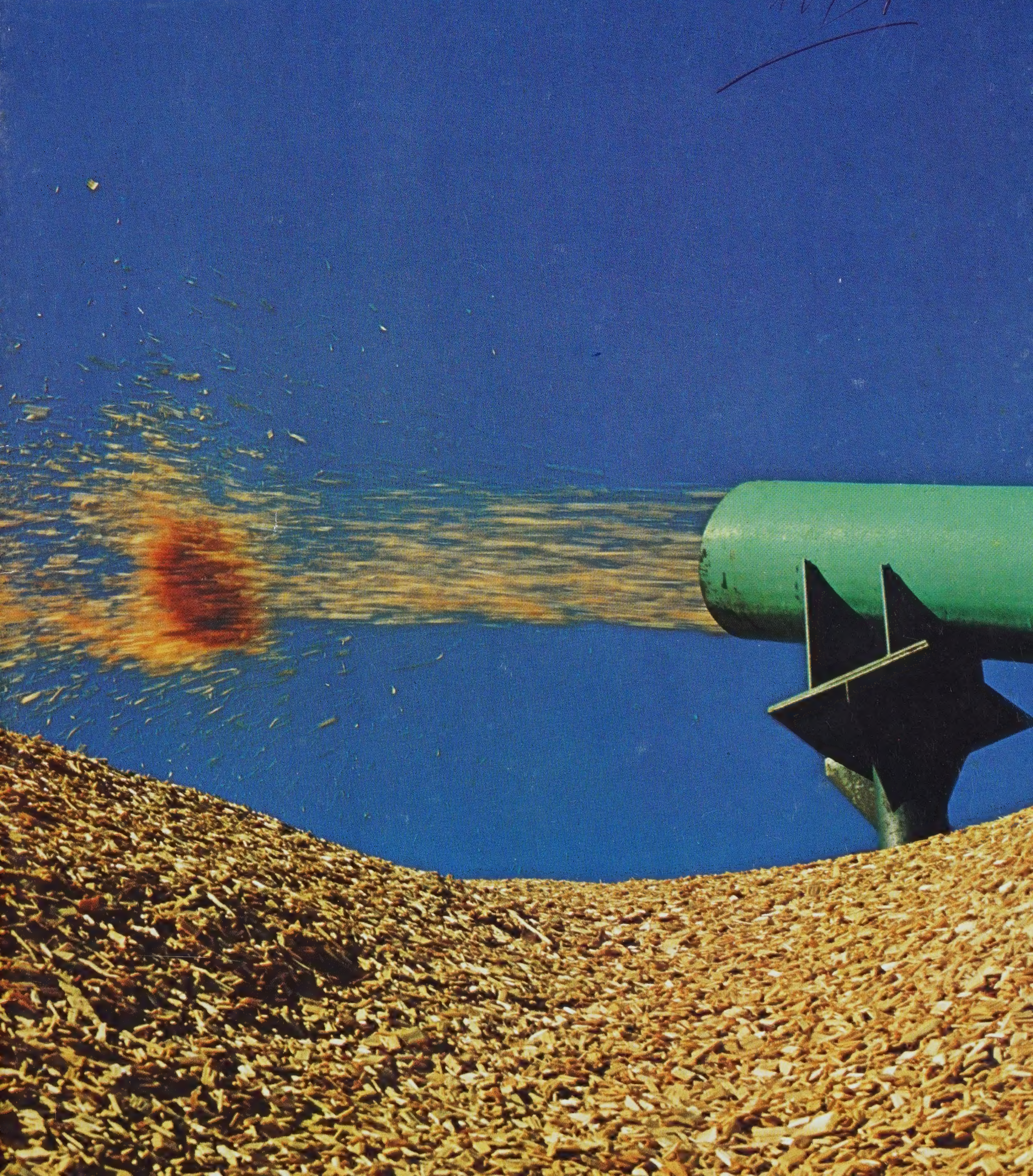
Great Lakes Paper

ANNUAL REPORT 1972



Like a shot from a cannon, a cluster of wood chips, shown on the front cover, is blown onto the chip pile ready for use in the manufacture of bleached kraft pulp. Moments before, this was an eight-foot log on its way through the chipper, the final stage in a mechanical wood-harvesting, processing and distribution system that begins in the forest. The first part of the story is illustrated and explained on page 24 and inside back cover. The second part takes place in our mechanized wood-handling system in the mill yard. The control room, shown above, is the nerve centre of the woodroom which provides pushbutton control of operating equipment and a continuous check of all systems including closed circuit television inspection at key locations. The new woodroom produces debarked logs and chips for our manufacturing processes. Other features of the system are shown in this report.

SCOREBOARD

	1972	1971	PERCENT UP OR DOWN IN 1972
newsprint paper, tons shipped	338,526	340,516	down 0.6
chemical pulp, tons shipped	166,244	166,073	up 0.1
total shipments to customers	504,770	506,589	down 0.4
'000 omitted			
total sales ($U.S.)	$81,642	$81,355	up 0.4
$U.S. exchange premium (discount)	(868)	648	—
sales, in $Canadian	80,774	82,003	down 1.5
operating profit	10,892	13,446	down 19.0
earnings before income taxes	2,927	5,747	down 49.1
income taxes	1,319	2,510	down 47.5
NET EARNINGS: total amount	1,608	3,237	down 50.3
net per share	0.45	0.90	down 50.3
dividends per share	0.30	0.65	down 53.9
cash flow	8,501	9,710	down 12.5
working capital at year-end	$13,150	$12,411	up 6.0

Ten-year financial and tonnage summaries are shown on pages 22 and 23.

HIGHLIGHTS OF '72

- Despite record total sales of $81.6 million in 1972 versus the previous record of $81.4 million in 1971, our net earnings of 45 cents a share were down from 90 cents in 1971. A major factor in our earnings drop was the discount in our U.S. dollar exchange.

- Due to a fourth quarter upsurge in our newsprint orders, establishing a new high level, we began in mid-November 1972 to operate our newsprint mill on a seven-day-a-week basis for the first time in our history.

- Because of the fourth quarter increase, total shipments of 504,770 tons in 1972 were only down slightly from 506,589 tons in 1971.

- Construction began on a new $4.1 million stud mill in 1972 to produce stud lumber for the construction industry. Shipments will start in the second half of 1973.

ON INSIDE PAGES

Except for total sales, dollars in this report are Canadian unless otherwise identified. Amounts per share are based on total shares issued up to the end of the respective year.

Board of Directors

C. R. Bowles *treasurer and comptroller, Great Lakes Paper Company*	Thunder Bay	1964
Keith Campbell *vice-president, Canadian Pacific Limited*	Montreal	1971
*C. J. Carter *president, Great Lakes Paper Company*	Thunder Bay	1947
*Percy M. Fox *chairman of the board, Great Lakes Paper Company*	Bermuda	1952
C. J. Jeffery *executive vice-president, Great Lakes Paper Company*	Thunder Bay	1947
*Irwin Maier *chairman, The Journal Company*	Milwaukee, Wisconsin	1968
C. Blake McDowell *director and general counsel, Knight Newspapers Inc.*	Akron, Ohio	1952
*R. G. Meech, Q.C. *director, Loblaw Companies Ltd.*	Toronto	1936
B. H. Ridder, Jr. *president, Ridder Publications, Inc.*	St. Paul, Minnesota	1957
Murray D. Seeley *executive vice-president, Great Lakes Paper Company*	Thunder Bay	1956
*Ian D. Sinclair *chairman and chief executive officer, Canadian Pacific Limited*	Montreal	1969
W. J. Stenason *vice-president, administration, Canadian Pacific Limited*	Montreal	1972
Russ Stewart *senior vice-president, Field Enterprises Inc., publishers of Chicago Sun-Times and Chicago Daily News*	Chicago	1957
G. Gordon Strong *chairman of the board, Thomson Newspapers, Inc.*	Canton, Ohio	1968

**Members of the Executive Committee.*

Years denote beginning of connection with the company.

Management

Percy M. Fox, *chairman of the board*	1952
C. J. Carter, *president*	1947
C. J. Jeffery, *executive vice-president*	1947
Murray D. Seeley, *executive vice-president*	1956
C. R. Caddo, *secretary*	1929
C. R. Bowles, *treasurer & comptroller*	1964
D. D. Morrow, *assistant treasurer*	1964
K. E. Winrow, *assistant comptroller*	1971
M. G. Rea, *assistant secretary*	1969
F. H. Tollefsen, *manager, information services*	1966

Our Company

The Great Lakes Paper Company, Limited was incorporated under the laws of Ontario in 1936. We manufacture newsprint paper, bleached kraft pulp and unbleached sulphite pulp. Our mill and head office are at Thunder Bay, Ontario.

Newsprint Services

Lake Superior Newsprint Co., Chicago, servicing of newsprint paper contracts: Bruce Fallows, *president;* W. D. Frost, J. H. Netherland, R. A. Schmidt, *vice-presidents.*

Sale of Pulp

Lake Superior Pulp & Paper Inc., Chicago and White Plains, N.Y., sale of kraft and sulphite: Bruce Fallows, *president;* R. L. Nash, *executive vice-president.*

Agents and Registrar

Our transfer agents are The Royal Trust Company, Toronto, Montreal, Calgary and Regina, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto, Montreal, Calgary and Regina.

Shareholders' Meeting

Our shareholders' meeting will be held at 11:30 a.m. Eastern Standard Time in the Confederation Room of the Royal York Hotel, Toronto on Tuesday, April 17, 1973.

TO THE SHAREHOLDERS

The most serious problem affecting our company and the industry generally over the past few years has been the erosion in net earnings despite a comparatively high level of sales. This shrinkage in our profit margin is the result of intense competition in our markets, the stronger Canadian dollar and continuing cost inflation.

We were able to strengthen our position in the newsprint market in the latter part of 1972, our efforts being supported by a growing improvement in newsprint demand. This improved market position permitted us to begin operating our newsprint mill on a seven-day-a-week basis in mid-November.

As we look ahead, both our newsprint and kraft pulp markets show considerable strength. These and other new developments hold promise for the future.

Our Cost Reduction Program

Management has undertaken the most stringent measures possible to reduce operating costs and improve efficiency. Further progress was achieved in our program to up-date and mechanize our operations wherever possible in both mill and woodlands. The wood-handling and wood-processing system, which we discussed in last year's annual report, is one example of major advancement in the mechanization of our operations.

Diversification

To improve our earnings and add important diversification to our products, construction of a stud mill to produce two-by-four inch lumber for the construction industry began in 1972.

Community and Employees

We continued to meet our responsibility to the community in 1972 through a continuing pollution control program which has substantially reduced any

undesirable effects resulting from our manufacturing processes. In our woodlands too, we continue to work closely with the Ontario Ministry of Natural Resources in carrying out an active program of forest regeneration in cutover areas.

The good relations we enjoy with our employees and the community generally are important factors in the operation of our enterprise. Our appreciation is extended to all employees for their contribution to our progress during 1972.

New Directors

Two new directors who joined our board in February 1972 were W. J. Stenason, vice-president, administration, Canadian Pacific Limited and C. R. Bowles, our treasurer and comptroller. The new directors replace R. A. Brown, Jr., president of Home Oil Limited, who died in January 1972 and K. A. Miners, formerly our vice-president, finance, who retired from the board. Our secretary, C. R. Caddo, retired at the end of 1972 after a long and distinguished career beginning with our predecessor company in 1929. He is replaced by M. G. Rea, who joined the company in 1969.

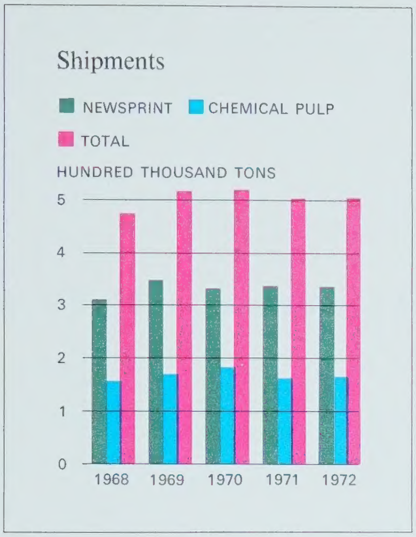
Up-dating our Report

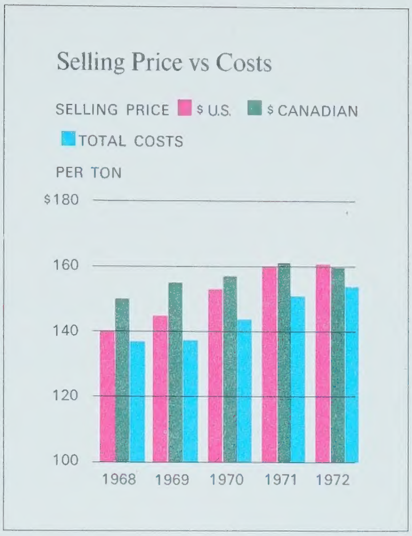
The 1972 annual report contains a number of changes in the arrangement of material and page design. An important innovation this year is the inclusion of all charts and tables on the next page, just ahead of the text. This should provide a quick visual impression of our year's activities and easy reference for the text that follows. We hope you find these changes helpful.

On behalf of the directors,

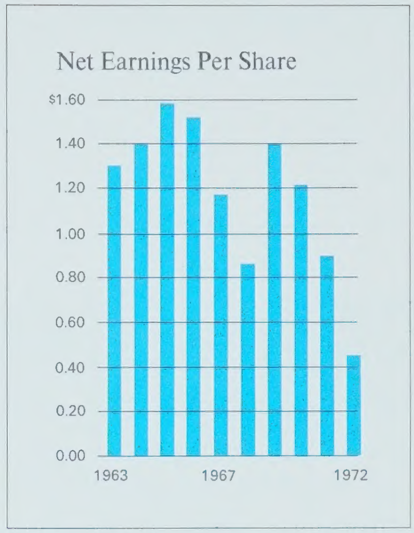
February 12, 1973

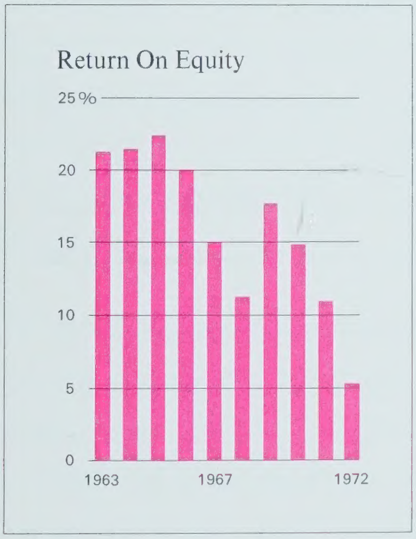
Charles J. Carter, *president*



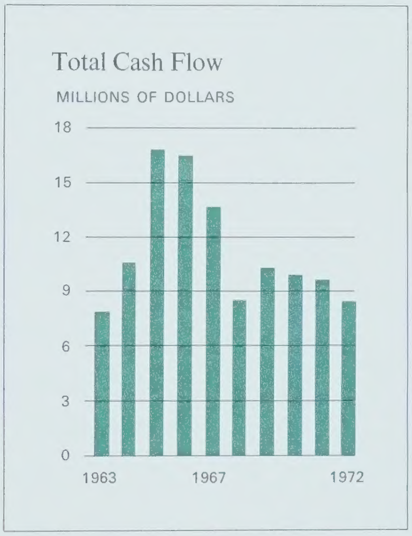


Selling price represents values per ton of total tons shipped for each given year. Total costs comprise cost of sales, delivery expense, selling and administrative expense, interest and depreciation.

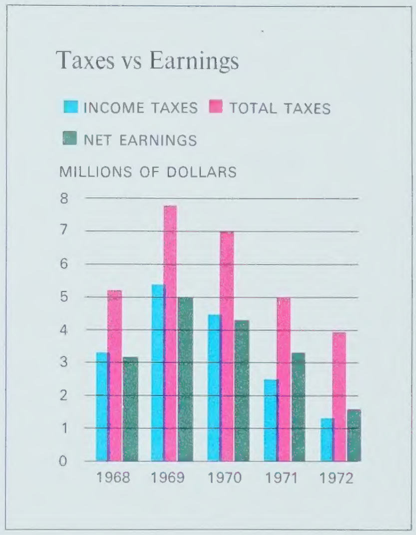




Net earnings as a percentage of shareholders' equity at year-end; shareholders' equity is defined in the glossary on page 16.



High levels in the mid-1960's were largely due to tax deferments resulting from the construction of the kraft mill.



Total taxes include stumpage dues, ground rent, fire tax and municipal taxes. Other major taxes not included are fuel tax and sales taxes.

1972 RESULTS BY QUARTERS

Shipments in Tons

Quarter	News-print	Chemical Pulps	Total Tons
First	69,820	40,207	110,027
Second	84,108	42,537	126,645
Third	84,369	40,191	124,560
Fourth	100,229	43,309	143,538
	338,526	166,244	504,770

Sales and Earnings '000 omitted

Quarter	Total Sales $U.S.	Oper. Profit	Net Earnings
First	$17,709	$ 1,711	$ (112)
Second	20,646	2,864	513
Third	20,179	2,772	510
Fourth	23,108	3,545	697
	$81,642	$10,892	$1,608

Net Earnings Per Share

Quarter	1972	1971	1970	1969
First	$(0.03)	$0.09	$0.26	$0.27
Second	0.14	0.27	0.28	0.34
Third	0.14	0.26	0.25	0.29
Fourth	0.20	0.28	0.42	0.50
	$0.45	$0.90	$1.21	$1.40

EARNINGS DOWN; INCREASED FOURTH QUARTER SHIPMENTS

Net earnings of $1.6 million in 1972 were down 50.3 percent from $3.2 million in 1971. This drop was due in large measure to our U.S. dollar exchange discount versus a premium in 1971, as noted on page 7. This was responsible for a decrease of $813,000 or 23 cents a share in our 1972 earnings compared with 1971.

Earnings were further depressed by continuing cost increases, particularly labor, which, despite our every effort to improve efficiency, exceeded the increase in our selling price in 1972.

By the end of the year, our shipments had gained considerable strength.

Strong Market Prompts Seven-Day Operation

We changed the basis of our newsprint operation in mid-November 1972 from a six-day week to a full seven days as a result of an upsurge in newsprint orders, establishing our newsprint shipments at a new high level. This is the first time in our history that we have operated our newsprint mill on a continuous basis.

As a result of the fourth quarter increase, as indicated in the table on page 5, newsprint shipments of 338,526 tons for the year were only slightly lower than 340,516 tons in 1971. Total shipments of 504,770 tons compared with 506,589 tons in 1971.

Our chemical pulp shipments remained steady throughout the year. Total chemical pulp shipments of 166,244 tons in 1972 were slightly higher than 166,073 tons in 1971.

Total sales established a record of $81.6 million versus the previous high of $81.4 million in 1971.

New Stud Mill

In 1972 we began construction at our mill site in Thunder Bay, of a $4.1 million stud mill capable of producing 50 million board feet of stud lumber annually. Studs are nominally two-by-four inch pieces of lumber, eight feet in length, which have wide use in the construction industry where pre-cut lumber is now a standard requirement. The studs produced by our mill will be kiln-dried, planed and packaged.

Present indications are that our entire output will be sold in Canada and the U.S. with shipments starting in the second half of 1973. This new product will make a significant contribution to our sales and earnings.

A grant from the federal government's Department of Regional Economic Expansion assisted in this expansion which will provide year-round employment for an additional 100 people in our mill and woods operations.

Dividends

In view of depressed earnings, the directors decided to omit declaration of dividends in the third and fourth quarters of 1972.

$1.5 Million Drop in U.S. Dollar Exchange

Our U.S. dollar exchange premium of $648,000 in 1971 dropped to a discount of $868,000 in 1972. Since June 1970, when the federal government freed the Canadian dollar from its pegged value of 92½ cents and allowed it to find its own level in the international monetary market, the Canadian dollar has gained strength and in 1972, exceeded the value of the U.S. dollar. This meant that the premium we formerly received when converting U.S. dollars into Canadian currency became a discount during most of 1972. Since virtually all our sales are in the U.S., the resulting exchange discount had a serious effect on our earnings.

Depreciation Up; Interest Down

Our depreciation of $6.1 million in 1972 was 4.1 percent higher than $5.8 million in 1971 due largely to completion of the woodroom. As explained in our accounting policy on page 16 we do not begin charging depreciation on major construction projects until they are completed. Depreciation, which includes depletion, is defined in the glossary on page 16.

Interest on long-term debt decreased to $2 million from $2.3 million in 1971. This charge will continue to diminish steadily as our long-term debt is reduced.

Income Tax

Our income tax was again reduced by the Ontario five percent investment tax credit introduced in

One method of obtaining natural forest regeneration is to drag huge chain links over a cutover area as shown above. Other methods include seeding and hand planting of seedling trees.

April 1971. As a result, income tax charged in 1972 was actually 45.1 percent of earnings. This percentage, which is lower than the basic corporate rate, results from deducting the Ontario tax credit, which is based

A high degree of skill is required to run the complex machinery now operating in our woodlands areas. This Koehring short-wood harvester, described on page 24, can perform five different functions, some occurring simultaneously.

on our capital expenditures, from normal income taxes based on earnings.

Future Tax Changes

The following legislative changes will affect 1973 taxes: the new federal Income Tax Act which provides for a one percent reduction in the basic tax rate from 50 percent to 49 percent; the expiry at the end of 1972 of the seven percent federal tax reduction introduced in mid-1971 and the termination in 1973 of the Ontario five percent investment credit. As well as these changes, the federal government's May 1972 budget proposed a further reduction of the tax rate on manufacturing profits. If enacted, this would reduce the above basic tax rate of 49 percent to 40 percent on a major portion of our earnings.

The effect of the above changes and proposed changes, if the latter are enacted in their present form, will be to produce a combined federal and provincial basic tax rate of approximately 44 percent for our company in 1973.

Cash Flow Down

Our cash flow, defined in the glossary on page 16, was \$8.5 million in 1972, down 12.5 percent from \$9.7 million in 1971. A chart on page 5 shows total cash flow for the past ten years. In 1972, our cash flow comprised the following items: \$1.6 million in total net earnings; \$6.1 million in depreciation and depletion charges and \$808,000 in deferred income taxes. Explanation of our policy on deferred income taxes is given on page 16.

Our working capital of \$13.2 million at the end of 1972 showed a slight increase over 1971. In 1972 we deducted \$2.3 million from working capital for reduction of long-term debt. The long-term debt balance on December 31, 1972, after deducting the amount due in 1973, was \$25.4 million, down from \$37 million in 1969. Our five percent sinking fund debentures and 5¾ percent serial debentures, Series B, were fully retired in 1972.

Details of our bonds and debentures are shown on the consolidated balance sheet on page 19.

Capital Expenditures

A total of \$4.5 million was spent in 1972 on additions to our facilities. This included \$1.6 million to complete our fully mechanized wood-handling and wood-processing system, \$450,000 in improving and up-dating our paper machines and initial payments for the construction of our stud mill. We also made progress payments in 1972 on a new \$2-million turbine which will be installed in 1974. When this additional turbine goes into operation, we will be capable of generating about half our electricity requirements thereby helping to offset the ever-rising cost of Ontario Hydro-electric power.

Capital expenditures in 1973 will be substantially above 1972 levels and will include completion of the stud mill and further improvements to our paper machines that will increase their speed and enhance the quality of our newsprint. The speed-up will increase our newsprint production to meet the growing demands of our customers.

Environmental Protection

During 1972, we were able to incinerate non-usable wastes and general mill debris, without causing air pollution, by means of a solid waste disposal system

Three cords of eight-foot wood can be carried in the giant jaws of this wheeled loader which feeds the twin receiving decks of the new woodroom. The wood-handling system processes all wood destined for our newsprint and kraft pulp mills.

As logs are conveyed into the woodroom, they are sprayed with 155°F. hot water to remove debris, snow and ice. The clean logs move from here to the newer type dry debarking drums which greatly reduce water consumption.

installed in our mill yard in 1971. The new system, which is shown in a photograph on page 14, reduces the waste material to a non-organic ash suitable for landfill. This installation, the first of its kind in Canada, is another important advancement in our overall environmental protection program.

Throughout 1972, we successfully operated our primary treatment system for mill liquid wastes, known as effluent, which was completed in 1971. The sludges from the primary treatment facility are fed to our solid waste disposal system.

Secondary Treatment

Further progress was made in our pilot plant studies of secondary treatment using biological systems. This form of treatment deals with the removal of dissolved solids and the return of oxygen to the fully treated effluent. We continued discussions with the Ontario Ministry of the Environment for the purpose of developing a long-term program for secondary treatment of our liquid wastes.

In October 1972, we were one of 11 organizations across Canada to be awarded a contract by the federal Department of the Environment for research into water pollution abatement. The purpose of the contract is to conduct biological treatment studies of bleached kraft pulp mill wastes. This research will help advance our secondary treatment program.

Recycling Water

Significant progress was made in 1972 in the reduction of water usage through increased use of recycling which is discussed in the caption on page 13. Total input of water to the mill is now down considerably, thus easing the load on our treatment facilities by reducing the volume of effluent.

Odor Control

We continued to seek ways of improving our methods of controlling odors and other discharges into the air. Studies conducted in 1972 on our control measures showed that we were within current air management requirements of Ontario and well advanced to meet known future requirements.

Since 1964 our total capital expenditures on all forms of pollution control have exceeded $13 million.

While we have made significant progress in our abatement program, our technical and engineering staffs continue to work closely with government authorities and outside experts in their efforts to improve all our control systems.

Woodlands Mechanization

The major part of our woodlands operation is now fully mechanized, from the cutting of trees to the final delivery of pulpwood in the mill yard. Our mechanization program enables us to harvest and deliver the increasing volume of wood required by the mill, contain rising costs and create favorable working conditions. This program also helps us overcome the serious problem of the growing scarcity of labor facing the logging industry across Canada.

A key factor in our mechanized logging operation is the reliability of our transportation system which includes some 1,100 miles of all-weather roads. This road network permits steady year-round movement of pulpwood from cutting areas to railhead or directly to the mill and enables us to hold pulpwood inventory to a minimum.

The series of illustrations on page 24 and inside back cover shows how our various mechanized operations work together to provide our mill with a continuous wood supply.

Forest Management

In 1972 we continued our forest regeneration activities in co-operation with the Ontario Ministry of Natural

Papermaker Bruce Higgins and his father, millwright Stanley Higgins, discuss a problem on one of our paper machines. Of the 533 members of our 25 Year Club, many are men like Stanley Higgins who have sons or grandsons in the company.

As well as at the control centre shown on the inside front cover, operators must make decisions at the sorting deck of the woodroom where logs can be directed to the groundwood mill or the chipper, or re-directed through the debarking drums.

Resources. Since 1966, when the first formal regeneration agreement was concluded between the company and the Province, over 21 million trees have been planted on some 27,250 acres. Another 32,750 acres have been treated by a process known as scarification shown in the photograph on page 7. This treatment is used to promote natural regeneration and prepare areas for tree planting. Seeding equipment is attached to the scarification unit for use in areas where natural regeneration needs this support.

Reforestation activities are the first stage in providing more intensive forest management to promote continuous forest growth. While work to date has tended to be concentrated on more productive sites where results can be assured, both our company and the Ministry continue to work on the development of new techniques that will allow us to broaden our regeneration efforts to include all forest areas that can benefit from such a program.

A large number of visitors used our network of roads in 1972. As well as serving our operational needs, these roads open more and more areas for public recreational activities and fire protection. We wholeheartedly support the concept of multiple use of forest areas, which, under careful management, will provide maximum benefits for all.

Labor Union Agreements

A new agreement with the union representing our woodlands employees has been completed. This agreement, which provides for increased wages and benefits, will remain in effect until August 31, 1974.

During 1972, agreements were in effect with the five unions representing our mill and office personnel. These agreements will expire on April 30, 1973.

Outlook

Newsprint consumption in the U.S. rose in 1972 to a total of 10.3 million tons, an increase of 6.2 percent over 1971, according to a year-end estimate by Canadian Pulp and Paper Association. This higher level of consumption, which gained

strength through the year, is expected to continue into the foreseeable future and the Association projects consumption of newsprint will reach 11 million tons by 1975. The resulting increase in production is expected to bring the Canadian operating ratio, which is production versus manufacturing capacity, to 93.1 percent in 1973 compared with 87.1 percent in 1972 and 82.6 percent in 1971, the lowest point since 1963. Canadian Pulp and Paper Association reports the increase in total Canadian capacity from 1971 to 1972 was the lowest for many years and increases for 1973 are expected to be marginal. North American reserve newsprint capacity will remain at a low level in the immediate future.

There is also an expanding market for chemical pulp and demand should be strong over the long term. Recognized as the finest quality of kraft pulp made from northern softwood, our pulp is a prime ingredient in all grades of fine printing and specialty papers. There is also a widening use of our kraft pulp in such fast-growing areas as disposables in hospitals, institutions and homes.

We can expect to see a marked improvement in our shipments of newsprint in 1973 and we will maintain our strong position in the kraft pulp market. Higher prices will be in effect for newsprint and kraft pulp for 1973. In view of the growing

A recycling system in the new woodroom conserves water and reduces pollution. The settling tank, shown below, removes suspended solids and other debris from the water before it is heated and re-used, as discussed in the captions on pages 10 and 14.

improvement in our markets and the introduction of stud shipments, our total sales will increase substantially in 1973.

This improvement, however, will be affected by such factors as the exchange value of the Canadian dollar, increasing labor, freight, fuel and power rates and the future course of taxes and other government charges. Most of these items are outside our control and are not necessarily subject to the realities of the competitive international markets we must face. Ontario Hydro, for example, recently imposed a rate increase of 12 percent for 1973. Counting the latest increase, this publicly owned utility, the only supplier of electric power in Ontario, has raised its rates by 45 percent since 1968. In the case of the U.S. dollar exchange rate, its importance is indicated by the fact that each one percent change affects our annual net earnings by 12 cents a share at our 1972 sales level.

With such positive factors in our favor as the quality and diversification of our products, highly mechanized woods and mill facilities, a favorable geographical location, high-grade northern wood resources and our strengthened position in the market-place, there is every reason to believe that we can look forward to the continued growth of our company in the years ahead.

An overall view of the new woodroom which occupies a central location in the mill yard. The puff of steam in the centre rises from the solid waste disposal system, an anti-pollution installation which incinerates bark, woodroom debris and sludge resulting from our liquid waste treatment facilities, without causing air pollution. It also heats recycled water for the woodroom.

NEWSPRINT PAPER

Rated capacities of newsprint producers in Canada and other newsprint data may be obtained from reports issued by Canadian Pulp and Paper Association, on which the tables below are based. World totals in these tables omit communist countries for which reliable information is lacking and some of the 1972 figures are subject to revision by CPPA.

Total World Supply

'000 tons	1972	1971	1968	1963
World capacity	23,894	23,350	21,794	17,697
World production	21,152	20,350	18,795	14,998
Operating ratio (%)	88.6	87.2	86.2	84.7

World Demand & Imports

'000 tons	1972	1971	1968	1963
Total demand	21,726	20,750	19,083	15,048
Total imports	11,584	11,053	10,356	8,308
Import % of total	53.3	53.3	54.3	55.2

Canadian Production

'000 tons	1972	1971	1968	1963
Total capacity	10,118	10,050	9,655	8,055
Tons produced	8,661	8,297	8,031	6,630
Excess capacity	1,457	1,753	1,624	1,425
Operating ratio (%)	85.6	82.6	83.2	82.3

Canadian Shipments

'000 tons	1972	1971	1968	1963
Tons to U.S.	6,403	6,114	6,107	5,179
To overseas markets	1,557	1,376	1,315	920
To Canadian buyers	780	720	674	523
Total tons shipped	8,740	8,210	8,096	6,622

Canadian Percentages

	1972	1971	1968	1963
Of world capacity	42.3	43.0	44.3	45.5
Of U.S. supply	63.7	64.0	66.2	69.4
Of world production	40.9	40.8	42.7	44.2
Of world exports	72.3	71.3	73.1	74.1

U.S. Supply Sources

'000 tons	1972	1971	1968	1963
Tons from Canada	6,403	6,114	6,107	5,179
From U.S. mills	3,315	3,127	2,834	2,099
From Europe	338	317	284	189
Total tons of supply	10,056	9,558	9,225	7,467

BLEACHED KRAFT PULP

The U.S. is by far the largest user of chemical pulp. In 1972 U.S. demand for market bleached kraft pulp was 3.6 million tons, which was 36 percent of total world demand of ten million tons. These amounts and the tables below represent the free movement of market pulp and do not include shipments between integrated buyers and sellers. Canada's shipments to this market represent 50 percent of the total U.S. supply in 1972.

In 1971 production of bleached kraft pulp by non-communist countries was 28 million tons. This data was not available for 1972 but it is expected to exceed the 1971 figure.

Canadian Shipments

'000 tons	1972	1971	1968	1963
Tons to U.S.	1,781	1,492	1,314	815
To overseas markets	2,148	1,657	1,409	341
To Canadian buyers	445	366	351	157
Total tons shipped	4,374	3,515	3,074	1,313

U.S. Supply Sources

'000 tons	1972	1971	1968	1963
Tons from Canada	1,781	1,492	1,314	815
From U.S. mills	1,801	1,329	1,101	645
From Scandinavia	3	4	5	5
Total tons of supply	3,585	2,825	2,420	1,465

Source: CPPA

GLOSSARY OF TERMS

TOTAL SALES: Total amount we obtain from the sale of our products before deducting costs of delivery to customers and before dollar exchange.

OPERATING PROFIT: Profit we get from manufacture and sale of our products after deducting all costs except interest charges, depreciation and depletion, and income taxes. Applies to operations only; does not include investment or other form of income.

DEPRECIATION: The distribution on a yearly basis of the original cost of a fixed asset (defined below) over its estimated useful life, which we write off as a deduction from earnings.

DEPLETION: Similar to depreciation but applies to our usage of pulpwood from our licensed forest areas.

NET EARNINGS: Our total income less all costs; the net amount available to pay dividends or retain for use in our business.

CASH FLOW: Total funds generated by operations in a year. In our case, cash flow includes net earnings and charges not requiring cash outlay such as depreciation and depletion and the amount by which deferred income taxes have increased or decreased during the year.

RETAINED EARNINGS: Accumulated total of our annual net earnings since the start of the company (1936) less dividends to shareholders during the same period and after taking into account extraordinary items such as bond and debenture issue discount and expense.

CURRENT ASSETS: Cash and all assets we can normally expect, within a year, to convert into cash or to consume in the process of earning income.

FIXED ASSETS: Long-term assets, such as land, buildings, plant and equipment, which we hold for earning income rather than for sale or conversion.

CURRENT LIABILITIES: Amounts we owe (including a portion of long-term debt) due for payment within one year.

LONG-TERM DEBT: Amounts we owe from borrowing money by issues of bonds and debentures.

SINKING FUND: Amounts we pay to independent trustees of our bond and debenture issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption.

WORKING CAPITAL: Amount by which our current assets exceed our current liabilities, both as defined above. This is a measure of our working or operating resources.

BALANCE SHEET: Statement of our financial position at a year-end showing what we possess (assets of all kinds) versus what we owe (liabilities of all kinds) and shareholders' equity; set forth in accordance with The Business Corporations Act (Ontario). The word "consolidated" means that all subsidiaries are included to show position of our enterprise as a whole.

SHAREHOLDERS' EQUITY: Value of the shareholders' ownership or interest in the company, shown on our balance sheet. Consists of share capital plus retained earnings and is the amount by which our assets exceed our liabilities.

OUR ACCOUNTING POLICY & METHODS

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles applied on a consistent basis over the years. Significant items are explained below and in notes to the financial statements on page 21.

Inventories

In general, our inventories are valued at average cost which is less than the net amount we would realize from our selling price for the finished product, after deducting cost of completing manufacture and delivery.

Fixed Assets

Land, buildings, machinery, woodlands improvements and equipment are carried at the values placed on them at the inception of this company in 1936, which were the estimated costs to the predecessor company, with subsequent additions at cost. The assets stated at inception values amount to approximately $10 million at estimated cost and are fully depreciated.

The value of woodlands under lease at the inception of the company was determined by deducting the value of all other assets from the liabilities of the company, including issued share capital. Such inception value represents approximately $2.8 million. Subsequent additions carried at cost bring the present balance up to $3.9 million.

Depreciation and Depletion

Depreciation on mill buildings, machinery and equipment, representing over 90 percent of our total fixed assets, is calculated on the straight-line basis at a composite rate of 4½ percent per year, which is based on estimates of the economic lives of our assets. Before 1970, such assets were depreciated on a diminishing balance basis at a rate of ten percent per year.

Figures in this report for the years prior to 1970 have not been restated.

Woodlands improvements and equipment are depreciated on the diminishing balance basis at a rate of 30 percent per year. This rate reflects the shorter life of logging equipment.

In line with accepted practice, we do not charge depreciation on major projects against our earnings until construction has been completed. For this purpose, we define a major project as one costing over $500,000.

Depletion of our natural resources is included with depreciation in the financial statements and represents about two percent of the total. With the 1972 depletion charge the value of woodlands under lease has been fully written off.

Deferred Income Taxes

In the first few years following acquisition of a capital asset, the depreciation we claim for income tax purposes under present tax law exceeds the depreciation we actually show in our financial statements. This situation is reversed, however, in later years. As a result, the taxes charged to earnings during the initial period exceed actual tax payments. The excess amounts are set aside as deferred income taxes to be drawn upon in future years when the amount of taxes charged to earnings falls below actual tax payments.

EARNINGS

consolidated statement for years ended December 31 (thousands of dollars)

	1972	1971
Total sales, defined on page 16	$81,642	$81,355
U.S. dollar exchange premium (discount)	(868)	648
	80,774	82,003
Cost of sales and delivery expense	68,105	66,853
Selling and administrative expense	1,777	1,704
OPERATING PROFIT	10,892	13,446
Other income	163	450
	11,055	13,896
Interest on long-term debt	2,043	2,306
Depreciation and depletion	6,085	5,843
EARNINGS before income taxes	2,927	5,747
Income taxes	1,319	2,510
NET EARNINGS for year	$ 1,608	$ 3,237
NET EARNINGS per share	$ 0.45	$ 0.90

RETAINED EARNINGS

consolidated statement for years ended December 31 (thousands of dollars)

	1972	1971
Retained earnings at beginning of year	$27,491	$26,596
Net earnings for year	1,608	3,237
	29,099	29,833
Dividends declared	1,081	2,342
RETAINED EARNINGS at end of year	$28,018	$27,491

CONSOLIDATED BALANCE SHEET

at December 31 (thousands of dollars)

Assets	1972	1971
Current Assets		
Cash	$ 416	$ 627
Short-term deposits	—	945
Accounts receivable	13,284	13,121
Income taxes recoverable	781	879
Inventories at cost or net realizable value, whichever is lower:		
Finished goods	520	578
Pulpwood	5,786	5,134
Miscellaneous raw materials and supplies	3,954	4,041
Prepaid expenses	199	210
	24,940	25,535
Fixed Assets—at values placed thereon at the inception of the company with subsequent additions at cost:		
Land, buildings, machinery, woodlands improvements and equipment	143,773	139,863
Accumulated depreciation	83,947	78,397
	59,826	61,466
Woodlands under lease	3,945	3,945
Accumulated depletion	3,945	3,845
	—	100
	59,826	61,566
	$84,766	$87,101

Signed on behalf of the Board:

C. J. Carter, *Director*

R. G. Meech, *Director*

Liabilities

	1972	1971
Current Liabilities		
Bank indebtedness	$ 800	$ —
Accounts payable and accrued charges	7,720	7,507
Income and other taxes payable	1,023	857
Dividend payable	—	540
Current portion of long-term debt	2,247	4,220
	11,790	13,124
Long-Term Debt (Note 3)		
First Mortgage Bonds		
4% sinking fund bonds, Series A, maturing 1975	5,380	6,141
8% sinking fund bonds, Series B, maturing 1989	19,170	19,600
Debentures		
5% sinking fund debentures maturing 1976	—	600
5¾% serial debentures, Series B, maturing 1972	—	1,526
5¾% serial debentures, Series C, maturing 1973-1975 ($3,000,000 U.S. funds)	3,225	4,300
	27,775	32,167
Portion due within one year	2,345	4,401
	25,430	27,766
Deferred Income Taxes	16,963	16,155

Shareholders' Equity

	1972	1971
Common shares without par value (Note 4)		
Authorized 4,500,000 shares		
Issued 3,602,603 shares	2,565	2,565
Retained earnings	28,018	27,491
	30,583	30,056
	$84,766	$87,101

SOURCE AND APPLICATION OF FUNDS

consolidated statement for years ended December 31 (thousands of dollars)

	1972	1971
SOURCE OF FUNDS		
Net earnings as reported on page 17	$ 1,608	$ 3,237
Charges not requiring an outlay of funds		
Depreciation and depletion	6,085	5,843
Increase in deferred income taxes	808	630
FUNDS FROM OPERATIONS	8,501	9,710
Sale of fixed assets	110	29
	8,611	9,739
APPLICATION OF FUNDS		
Expenditures on fixed assets	4,455	11,191
Reduction of long-term debt	2,336	4,401
Dividends declared	1,081	2,342
	7,872	17,934
INCREASE (DECREASE) IN WORKING CAPITAL	739	(8,195)
WORKING CAPITAL at beginning of year	12,411	20,606
WORKING CAPITAL at end of year	$13,150	$12,411

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of The Great Lakes Paper Company, Limited

We have examined the consolidated balance sheet of The Great Lakes Paper Company, Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD & CO.
Chartered Accountants

TORONTO, ONTARIO, January 26, 1973

NOTES TO THE FINANCIAL STATEMENTS

1. Exchange Conversion

U.S. dollar current assets and current liabilities, including the current portion of long-term debt repayable in U.S. funds, have been stated in Canadian dollars at the 0.5 percent U.S. dollar exchange discount in effect at December 31, 1972. Long-term debt repayable in U.S. funds (less the current portion) has been converted to Canadian funds at the 7½ percent U.S. dollar exchange premium in effect at date of issue.

2. Lease Commitments

The company has signed leases (with options to purchase) covering certain equipment for periods of three to seven years. The payments under these leases amounted to $745,000 in 1972. Payments will amount to $610,000 in 1973 and thereafter in reducing amounts to $130,000 in 1978.

3. Long-Term Debt Retirement

Payments (expressed in Canadian funds) required to meet serial maturities and sinking fund provisions of long-term debt over the next five years approximate $2.4 million in each of the years 1973 and 1974, $5.4 million in 1975, $600,000 in 1976 and $630,000 in 1977. The 5% debentures maturing in 1976 were retired in 1972 by the operation of the sinking fund.

4. Common Shares

Common shares were reserved at December 31, 1972 for the following:

(a) 155,272 shares for outstanding options entitling customers to acquire, under the terms of the options, shares at $25.00 per share exercisable not later than December 31, 1973.

(b) 49,480 shares under a share option plan for the granting of options to certain executive and other employees of the company or of any subsidiary of the company. Options to acquire, under the terms of the plan, 22,855 shares at $24.50 per share exercisable not later than June 1, 1975 were outstanding at December 31, 1972.

(c) 200,000 shares for the common share purchase warrants which accompanied the First Mortgage Sinking Fund Bonds, Series B. The warrants are exercisable at $31.00 per share up to July 1, 1974 and at $33.00 per share from that date until July 1, 1979 when the warrants expire.

5. Dividend Restriction

The trust deeds securing the long-term debt contain the restriction that after any dividend is declared working capital (which for these purposes is before the deduction of the current portion of long-term debt) must be over $5 million and retained earnings must be over $7.5 million.

6. Executive Remuneration

Directors' fees amounted to $52,000 in 1972 and the total remuneration, including directors' fees, received by the directors and senior officers amounted to $392,000 in 1972.

7. Past Service Pension Costs

Based on actuarial reports, unfunded past service pension costs resulting from increases in benefits amounted to $1.8 million at December 31, 1972. Past service costs are being amortized over 20-year periods from the dates such increases in benefits were granted. The amount charged to earnings was $146,000 in 1972.

8. Comparative Figures

For comparative purposes, certain 1971 figures have been restated to reflect minor reclassifications.

FINANCIAL SUMMARY: LAST TEN YEARS

Except as indicated, dollars are in thousands with 000 omitted.	1972	1971	1970	1969	1968	1967
SALES & EARNINGS						
Total sales	81,642	81,355	79,667	75,226	66,086	69,223
U.S. dollar exchange premium (discount)	(868)	648	2,445	5,518	4,737	5,123
Operating profit	10,892	13,446	15,728	17,951	14,455	17,511
Interest on long-term debt	2,043	2,306	2,537	2,036	1,440	1,673
Depreciation and depletion (see note below)	6,085	5,843	5,873	6,528	6,881	7,506
Earnings before income taxes	2,927	5,747	8,820	10,446	6,359	8,510
Income taxes	1,319	2,510	4,475	5,407	3,270	4,300
Net earnings	1,608	3,237	4,345	5,039	3,089	4,210
Net earnings per share (see note below)	0.45	0.90	1.21	1.40	0.86	1.17
Net earnings per ton of total shipments (see page 23)	3.19	6.39	8.36	9.72	6.55	8.53
Dividends declared, total amount	1,081	2,342	3,603	3,603	3,603	3,602
Dividends per share; in cents	30	65	100	100	100	100
Dividend percentage of earnings per share	67	72	83	71	116	86
ASSETS & LIABILITIES						
Current assets	24,940	25,535	33,324	41,073	21,360	20,655
Current liabilities	11,790	13,124	12,718	14,739	14,221	12,485
Ratio of above assets to liabilities	2.1	1.9	2.6	2.8	1.5	1.7
Working capital	13,150	12,411	20,606	26,334	7,139	8,170
Inventories, described in balance sheet	10,260	9,753	9,279	9,440	9,184	11,464
Fixed assets, described in balance sheet	143,773	139,863	128,932	122,282	120,096	118,656
Accumulated depreciation and depletion	87,892	82,242	76,630	71,392	65,309	59,111
Long-term debt	25,430	27,766	32,167	36,970	21,343	25,686
Above debt as percentage of capitalization	45.4	48.0	52.5	56.5	43.7	47.8
Deferred income taxes, explained on page 16	16,963	16,155	15,525	15,780	17,030	18,480
Retained earnings, at year-end	28,018	27,491	26,596	25,854	24,949	25,463
EQUITY & OTHER DATA						
Common shares outstanding (see note below)	3,602,603	3,602,603	3,602,603	3,602,603	3,602,603	3,602,603
Number of shareholders, at year-end	4,470	4,919	5,209	5,418	6,202	6,402
Percentage of shares held in Canada, at year-end	93.2	95.5	95.3	93.1	94.2	93.8
Shareholders' equity, total	30,583	30,056	29,161	28,419	27,514	28,028
Shareholders' equity per share	8.49	8.34	8.09	7.89	7.64	7.78
Net earnings percentage return on above equity	5.3	10.8	14.9	17.7	11.2	15.0
Net earnings percentage on total sales	2.0	4.0	5.5	6.7	4.7	6.1
Total cash flow	8,501	9,710	9,963	10,317	8,520	13,630
Cash flow per share	2.36	2.70	2.77	2.86	2.36	3.78
Annual expenditures on fixed assets	4,455	11,191	7,446	2,704	2,222	3,671
Number of employees on payroll, at year-end	2,441	2,527	2,768	2,857	2,693	2,590

All per share figures are based on shares outstanding at the end of the respective years.

1966	1965	1964	1963
63,857	46,872	41,150	39,195
4,383	3,434	2,986	2,903
17,886	15,746	14,068	13,523
1,478	774	821	863
5,637	3,167	3,032	3,131
10,924	11,863	10,417	9,672
5,450	6,165	5,370	5,000
5,474	5,698	5,047	4,672
1.52	1.58	1.40	1.30
11.81	16.15	16.13	15.74
3,600	3,600	3,600	2,880
100	100	100	80
66	63	71	62
23,080	19,734	14,855	20,248
16,964	11,235	5,879	6,015
1.4	1.8	2.5	3.4
6,116	8,499	8,976	14,233
11,879	9,308	7,262	7,236
115,269	102,419	74,653	63,846
51,822	46,734	43,921	41,224
30,009	34,313	38,596	18,138
52.3	57.4	62.3	45.3
16,565	11,115	3,295	873
24,855	22,981	20,883	19,436
3,600,523	3,600,083	3,600,000	3,600,000
6,632	6,926	6,340	6,295
93.6	93.7	92.9	93.3
27,367	25,483	23,383	21,936
7.60	7.08	6.50	6.09
20.0	22.4	21.6	21.3
8.6	12.2	12.3	11.9
16,562	16,684	10,501	7,941
4.60	4.63	2.92	2.21
13,558	28,093	11,115	1,767
3,077	2,406	2,100	1,890

Figures for the years prior to 1970 have not been restated to reflect change in depreciation basis as explained in our accounting policy on page 16.

TONNAGE SUMMARY: LAST TEN YEARS

TONS OF PRODUCTS SHIPPED TO CUSTOMERS

Years	Newsprint	Chemical Pulps	Total Tons
1963	275,686	21,067	296,753
1964	296,059	16,744	312,803
1965	337,045	15,737	352,782
1966	374,081	89,322	463,403
1967	362,443	131,020	493,463
1968	314,503	157,262	471,765
1969	350,709	167,918	518,627
1970	335,194	184,613	519,807
1971	340,516	166,073	506,589
1972	338,526	166,244	504,770

In both newsprint and pulps, annual shipments sometimes exceed production and vice versa. These differences between production and shipments are balanced by inventory changes and are so negligible that our shipments of chemical pulps recorded above may be taken as representing also our production of these pulps for sale to customers. Our kraft pulp mill started operation in the month of April 1966.

NEWSPRINT TONS AND OPERATING RATIO

Years	Capacity	Production	Ratio (%)
1963	356,048	272,956	76.7
1964	370,182	296,903	80.2
1965	368,676	336,377	91.2
1966	389,914	374,672	96.1
1967	422,956	363,977	86.1
1968	428,868	311,237	72.6
1969	437,030	350,795	80.3
1970	442,078	335,550	75.9
1971	441,124	340,539	77.2
1972	434,132	339,735	78.3

For 1973 our newsprint capacity is rated by the Canadian Pulp and Paper Association as 432,182 tons. Since 1967 capacity has been rated on the basis of continuous operation.

Our Harvesting Systems

There are two different mechanized systems for harvesting and processing wood in our forest areas: the short-wood system, used in stands of smaller trees suitable for pulpwood and the tree-length system, used in areas with larger trees that can be used for both sawlog and pulpwood production.

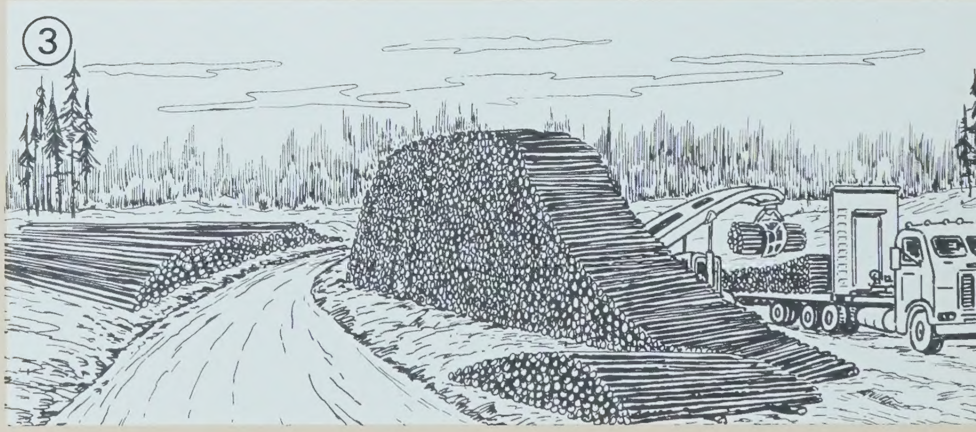
Panel No. 1 illustrates the various operations of the Koehring short-wood harvester. The picture at left shows the machine holding a tree and shearing it at its base. Following this operation, the operator directs the harvesting arm to the processing tower at the centre of the machine which removes branches and cuts the tree-length into eight-foot logs. As logs are cut, they fall into an automatic conveyor and are fed into the accumulated load from the bottom. When fully loaded with seven cords of pulpwood, the machine moves to roadside where it is off-loaded as shown at the right of the panel. For the purpose of explanation, harvesting and unloading are shown together.

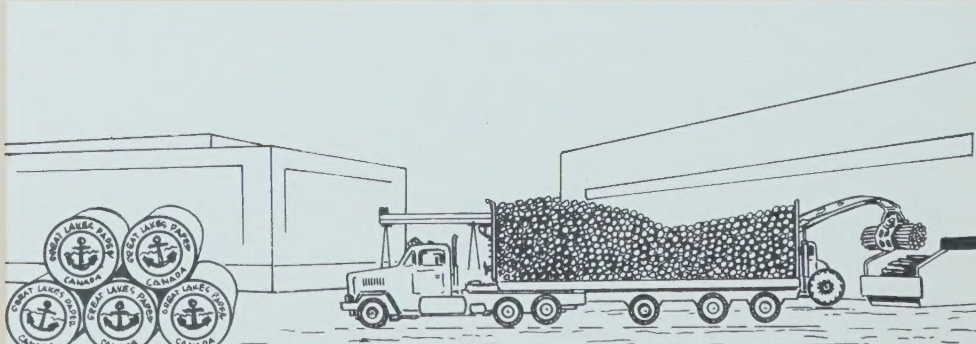
Panel No. 2 shows the three phases of the tree-length system. On the left is the Beloit harvester which approaches a tree and engages it with its harvesting boom. Two small chisel-like arms hold the tree and move upwards to remove the branches. The tree is topped, sheared at the bottom and deposited in a pile. A grapple skidder picks up the tree-lengths in its hydraulic grapples and drags them to roadside where the mobile slasher is located, as shown at the lower right of the panel. The arm at the right of the slasher picks up and deposits the tree-lengths on a conveyor which directs them to a cutoff saw. The slasher produces eight-foot logs for pulpwood and 16-foot logs for other wood-using industries. The arm on the left of the slasher is unloading eight-foot logs from the gathering holder at the base of the cutting section and piling them at roadside. Again, considerable distances usually separate these operations.

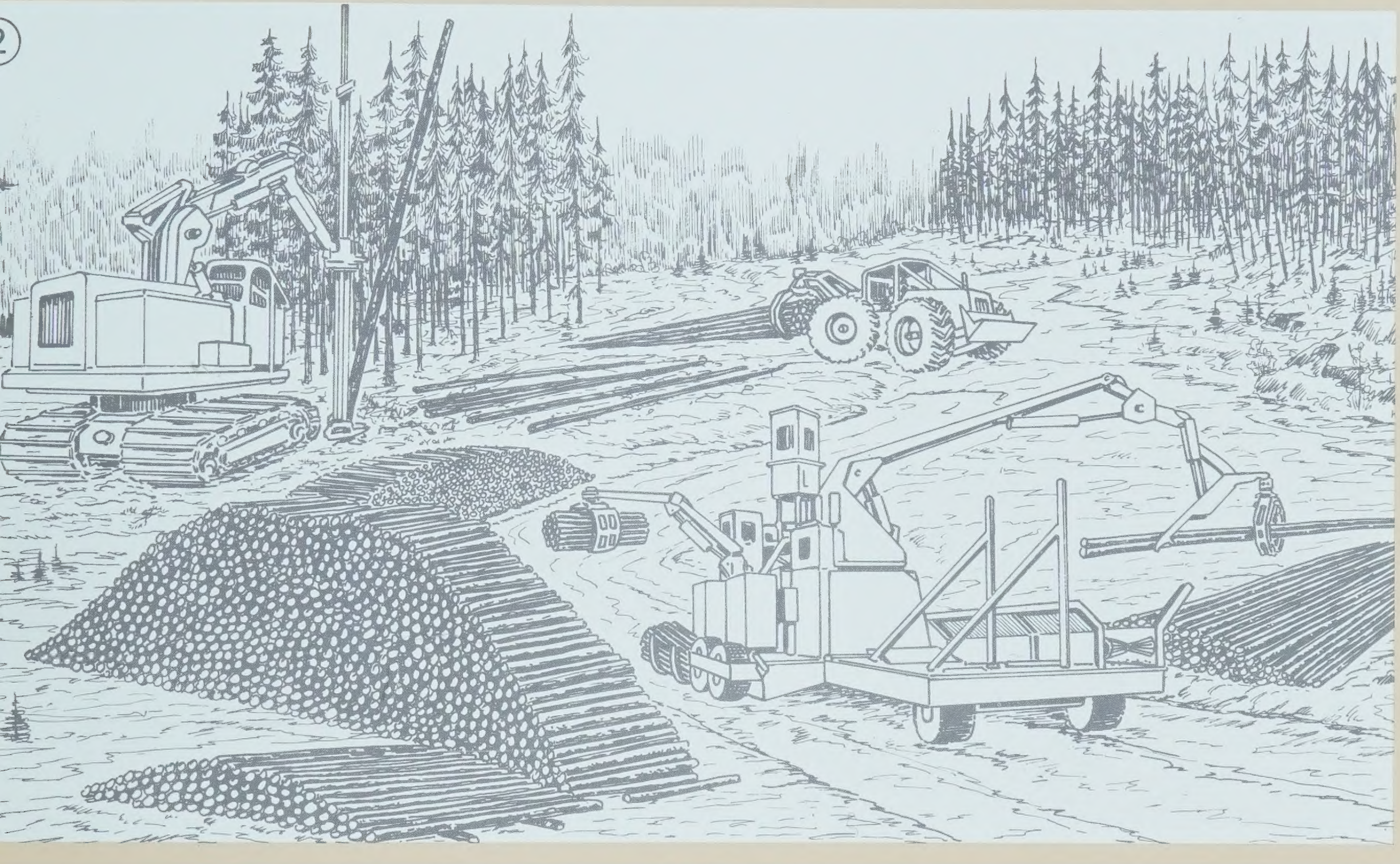
Panel No. 3 shows a wheeled loader loading a truck with pulpwood for delivery to the railhead, or directly to the mill from locations not served by rail. Piles of 16-foot wood and tree-lengths suitable for poles will be sold to wood-using customers.

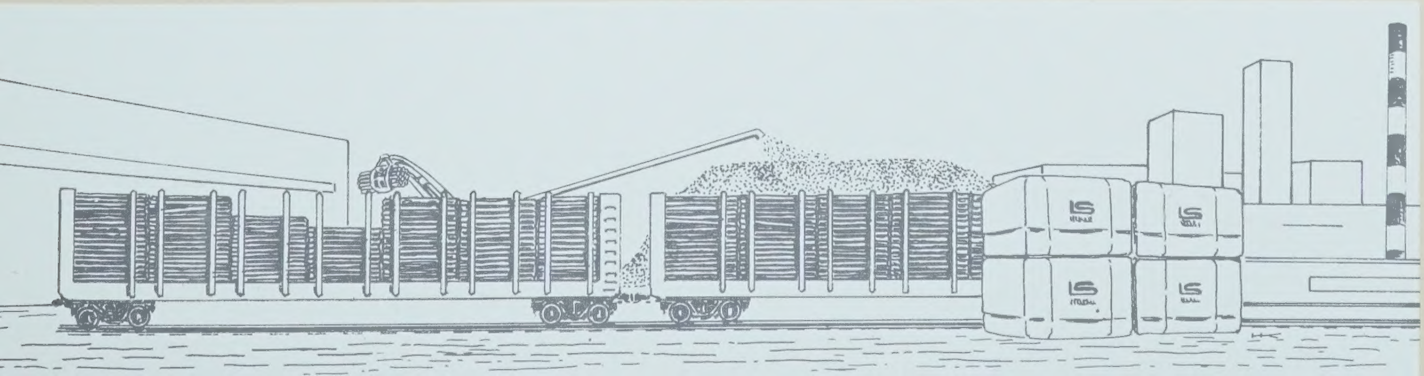
Panel No. 4 illustrates the loading of bulkhead railway cars at the railhead for delivery to the mill. The truck at right is being unloaded.

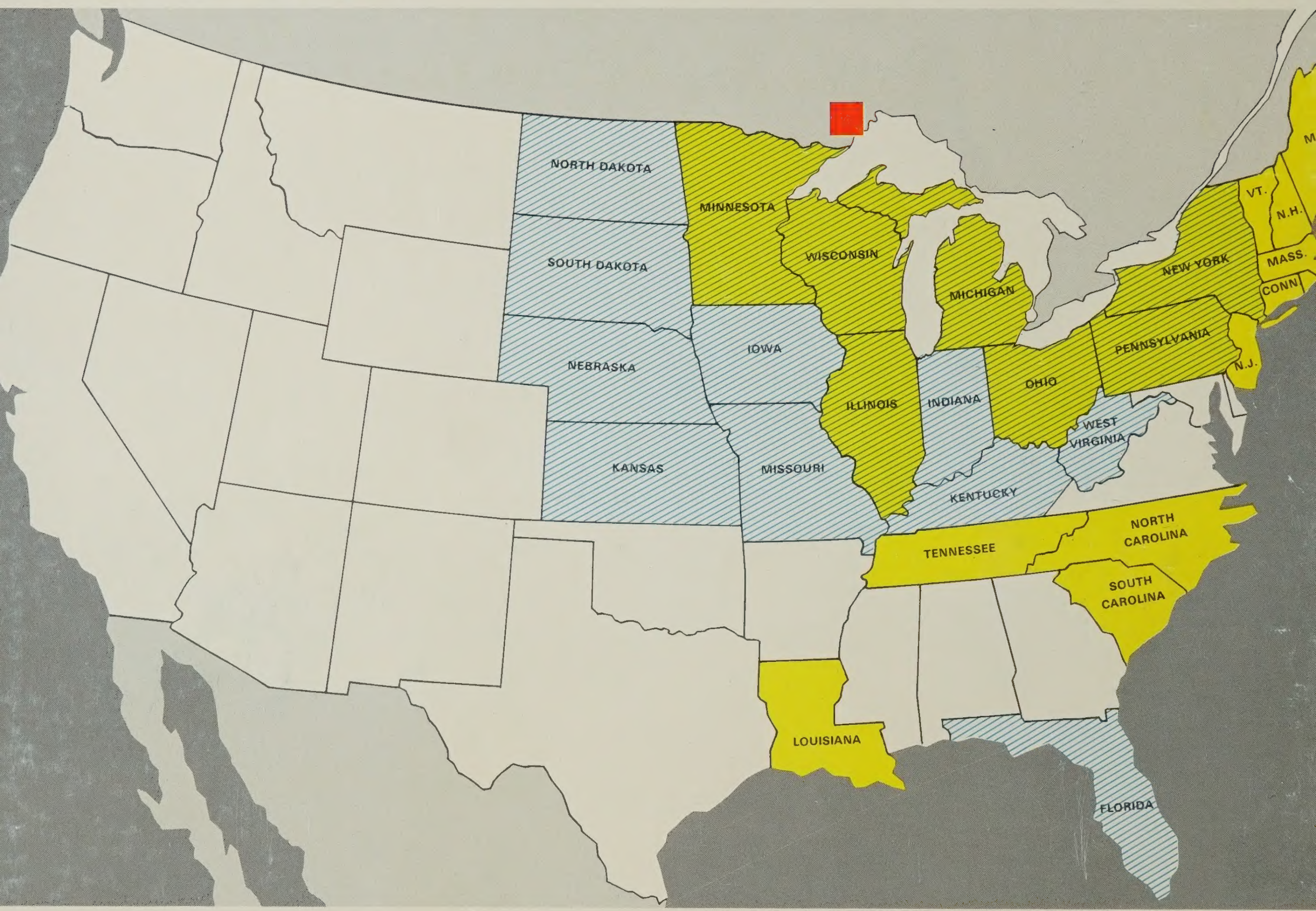
The final illustration shows pulpwood being loaded onto the receiving deck of the woodroom. The stylized drawing shows an outline of the newsprint mill on the left and the kraft pulp mill at right.











PRODUCT DISTRIBUTION

Newspring Newsprint | Both Newsprint & Chemical Pulps | Chemical Pulps

The location of our mill at Thunder Bay, Ontario and our adjoining 15,242 square miles of forest areas, held under Ontario Government licence, are shown by the red block above. The map serves to illustrate the importance of our location in relation to the markets we serve. From our mill both Canadian railroads and two major shipping lines provide a flexible and dependable transportation service to our United States newsprint and chemical pulp customers. Our location at the western Canadian end of the St. Lawrence Seaway supports direct shipment to the Atlantic coast and overseas as well as our long-established service to Great Lakes ports.